

## **A RAND NOTE**

**Differences Over Economics in the  
Soviet Leadership, 1988–1990**

**Anders Åslund**

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**Anders Åslund**

**Prepared for the  
United States Army**

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## **PREFACE**

This Note discusses the most important differences on economic issues that emerged among the key figures in the Soviet leadership between the summer of 1988 and December 1990. It focuses particularly on four central issues: the range of differences on agricultural policy, how to deal with the Soviet Union's financial crisis, what to do about pricing policy, and the overall goal of economic reform. The Note discusses the consequences the struggle over these issues has had for the Soviet economy and for the evolution of Gorbachev's attitude toward reform.

The study was sponsored by the Deputy Chief of Staff for Intelligence, U.S. Army, as part of a broad project in the Policy and Strategy Program of RAND's Arroyo Center to examine the struggle of conflicting interests within the Soviet elite.

The Note should be of interest to members of the U.S. intelligence and policy communities and others concerned with the tumultuous events now in progress in the Soviet Union. The study considers information available through December 1990.

The author is Anders Åslund, Director of The Stockholm Institute of Soviet and East European Economics.

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## SUMMARY

This Note discusses differences within the highest Soviet political elite on vital economic issues from the summer of 1988 until December 1990. It concentrates on the main political players in the Soviet leadership from all parts of the political spectrum. Four issues have been selected for scrutiny: agricultural policy, the financial crisis, price policy, and the choice of economic system. These questions appear to have been the most controversial and therefore most time-consuming for the leaders.

The most notable difference between this period and the period preceding 1988 is that Mikhail Gorbachev gradually ceased to emerge as a radical reformer. The further reform has proceeded, the less radical and more hesitant Gorbachev has appeared. The communist leaders have moved along with the wave of changing public opinion, but not at the same speed as society at large. As a result, the communist leadership as a whole has fallen behind the development of public opinion, rendering itself increasingly irrelevant to Soviet society. Continuous disagreements at the top have not earned the leaders more credibility, but on the contrary underlined their inability to act as and when necessary.

The outstanding feature of the period 1988–1990 thus seems to be that the Soviet communist leaders failed to act and therefore lost the power to affect economic trends. An important reason for their passivity was that they rarely managed to agree on anything important in the sphere of economics. The Soviet leadership has been characterized by such a degree of strife that it might be considered virtually atomized.

The fall of 1990, however, marked a consolidation of the conservative elements of the Soviet political elite. In spite of aggravated public acrimony, the political “center” around Gorbachev broke with the radicals and tried to join forces with the conservative communist groupings, such as the military and the military-industrial complex. When it came to a decisive test, Gorbachev and his followers were not prepared to accept full democratization, and that fact determined their turn to the old bodies of the communist power apparatus that were still intact—the army, the KGB, and the military-industrial complex. In this context, Gorbachev tried to make the presidency the coordinating center of policymaking.

## FOUR ECONOMIC ISSUES HIGHLIGHT DIFFERENCES

From 1988 through 1990, **agriculture** was the most obvious bone of contention between Mikhail Gorbachev and Yegor Ligachev. Their dispute involved virtually all sensitive issues of agricultural policy, with emphasis on the role of private ownership, the question of the command economy versus the market, and questions of resource allocation.

Gorbachev has for a long time advocated family agriculture and marketization, but without giving agriculture large new, additional resources. At the Central Committee Plenum on agriculture in March 1989, Gorbachev scored certain victories in terms of wording, yet Ligachev prevailed in the implemented policy. The power over agriculture stayed in the hands of the party; family farming made no headway; and ever larger resources were wasted on inefficient agriculture. Although this Gorbachev-Ligachev conflict over agriculture has attracted much attention, less notice has been taken of the fact that Ligachev simultaneously fought with Nikolai Ryzhkov and Lev Zaikov, attacking resource allocation to both civilian and military machine-building. Ligachev forged a strong alliance of the traditional vested interests within agriculture, but he came into conflict with most of the other leaders over this subject, and the economic performance of agriculture deteriorated.

The **Soviet financial crisis** does not appear to have been equally contentious within the leadership. The problem was rather that the leaders neglected reality and the quickly deteriorating financial balance for too long, and that virulent populist sentiments were aroused. Gorbachev and Ryzhkov both spoke up late and did not reveal any differences of note. Nikolai Slyunkov expressed a different opinion, calling for a swift balancing of the economy in December 1989, but by then he had already lost most of his powers. On financial issues, the communist leaders were pressed, on the one hand, by the evolving budget crisis, and on the other, by ever stronger populist resistance to measures to deal with that crisis.

Possibly, **price reform** has been the most controversial economic issue in the minds of the Soviet people. During this period, the leadership—with Slyunkov again dissenting—was inhibited from price reform by fear of popular resentment against price increases. Price reform was increasingly pressed on the leaders by economic realities, but the ability to put it into effect was restricted by popular pressures, leaving the leaders with ever less power to affect events.

The leadership differences over **economic reform** during this period were palpable. The extremes were represented by Yegor Ligachev and Aleksandr Yakovlev in the Politburo, but the operative reform debate was carried out between Prime Minister Ryzhkov and his followers versus the reform economists, who for a time obtained a certain degree of support from President Gorbachev. Contentious issues were whether any central planning would survive, the extent of privatization, and the speed of transition. Originally, Leonid Abalkin and Nikolai Ryzhkov seemed to represent the opposing poles of opinion, but as more radical forces gained momentum, Abalkin and Ryzhkov eventually joined hands. With the emergence of Boris Yeltsin as leader of the Russian republic in the summer of 1990, the old

central party elite lost the initiative on reform issues to the Russian leadership, which pressed for a swift radicalization through faster marketization and privatization.

After the Shatalin so-called "500-day program" for a rapid transition to a market economy emerged in the summer of 1990, the political forces contending over economic reform seemed polarized for a time. One camp was initially formed around Yeltsin and Gorbachev in a radical-centrist alliance, while the opposing camp was the government, headed by Ryzhkov and seconded by Abalkin. In the fall of 1990, however, Gorbachev transformed the situation by switching in a conservative direction. Eventually, Gorbachev rejected the Shatalin program and refused to accept more than a minimum of private ownership, primarily because the Shatalin plan would have limited his powers and the powers of the central authorities.

## CONCLUSIONS

An analysis of the positions of the members of the communist political elite indicates that the sharp disagreements within that elite have fractured it and left it, at least in the eyes of the Soviet public, impotent. The failure of the communist leaders to act to solve the many economic problems rendered them irrelevant. Mikhail Gorbachev, with the exception of his agricultural policy, ceased taking a leadership role on economic policy and changed from a radical reformer to a right-centrist absorbed with maintaining his own power. As a result of these consequences, the Soviet leaders seem to have placed the future in the hands of the more radical forces outside the old party elite.

## **ACKNOWLEDGMENTS**

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## I. INTRODUCTION

### BACKGROUND

#### The Institutional and Political Setting

In the last few years the Soviet setting for economic policymaking has been transformed because of the fundamental political changes that have taken place. General Secretary Mikhail Gorbachev had initiated democratization in his Khabarovsk speech in July 1986; it became the theme of the Central Committee (CC) Plenum of the Communist Party of the Soviet Union (CPSU) in January 1987, but it was the 19th Party Conference of 1988 that adopted the decisive resolutions on political reform.<sup>1</sup> A major blow was then directed by Gorbachev against the central party apparatus. First, the CC secretariat ceased to meet and was largely replaced by six CC commissions that met only a few times every year. The CC apparatus was slimmed down. The number of CC departments was reduced from 20 to 9. Second, the Soviet legislature was strengthened through democratic elections to a new extended parliament, the Congress of People's Deputies of the USSR, which in turn elected a standing parliament, the Supreme Soviet. Third, the government was monitored by elected councils at all administrative levels. Fourth, the foundation was laid for a strong presidency obviously designed for Gorbachev.

In parallel, an open public debate blossomed. Gorbachev's obvious intention was to prepare the ground for economic reform, notably agricultural reform, which had been blocked by both the party leadership and the central economic organs after the 27th Party Congress in February–March 1986. For this purpose, he used partial democratization as a tool, increasing the pressure from below at the same time that he reinforced his personal powers.

At the CC Plenum on September 30, 1988, the six CC commissions were set up. Only two of these CC commissions were concerned with economic matters—the CC Commission on Socioeconomic Policy, headed by CC Secretary Nikolai Slyunkov, and the CC Commission on Agrarian Policy, chaired by CC Secretary Yegor Ligachev with CC Secretary Vladimir Nikonov as his deputy. Only the military part of the CC apparatus remained unchanged, with CC Secretary Lev Zaikov at the helm and Oleg Baklanov as a junior CC secretary.<sup>2</sup> Meanwhile, Ligachev lost his previous unofficial post as Second Secretary.

As a consequence of these changes, the CC apparatus lost most of its power in the economic field, and CC Secretary Nikolai Slyunkov was left with little influence. No fewer

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<sup>1</sup>*Pravda*, July 5, 1988.

<sup>2</sup>*Pravda*, October 1, 1988. Slyunkov, Ligachev, Nikonov, and Zaikov were all full Politburo members.

than seven CC departments that specialized in various branches of the economy were abolished, and a single socioeconomic department remained. Instead, power over economic policy was concentrated in the hands of the Council of Ministers, that is, Prime Minister Nikolai Ryzhkov and the State Planning Committee (Gosplan), whose chairman was Yuri Maslyukov from February 1988. In September 1989, Maslyukov's rise was marked by his elevation to full membership of the Politburo. As these politicians held quite similar public views, it is difficult to assess whether Gorbachev made any choice between them and their institutions or whether they fought it out themselves.

The situation was remarkably different in agriculture. Here, Yegor Ligachev held his own and possibly reinforced the party's control, depriving the Council of Ministers of the little influence it had had in agriculture. Obviously, this was contrary to Gorbachev's intentions and a victory for Ligachev. Meanwhile, military policy was gradually shifted from the CC apparatus to the new presidency in a more complex manner, undermining the power of Lev Zaikov. Slyunkov, Ligachev, and Zaikov all remained full Politburo members and CC Secretaries up to the 28th Party Congress of July 1990, at which they lost all their party posts.<sup>3</sup>

The elections to the Congress of People's Deputies on March 26, 1989, signalled a definitive democratic breakthrough. Henceforth, popular opinion could no longer be disregarded, and this fact became even more obvious at the first session of the Congress of People's Deputies in May-June 1989, which in practice established a fair amount of freedom of speech. For some time, the deputies of the Congress and the Supreme Soviet grew more radical.

The regional elections in the Russian Soviet Federated Socialist Republic (RSFSR), the Ukraine, and Belorussia on March 4, 1990, significantly weakened the conservative communists in the party. Gorbachev then strengthened his own position and weakened the party further by introducing the new presidency. He was elected president on March 15. Article 6 in the Soviet constitution on the leading role of the communist party was abolished. The Politburo had already been meeting less and less, and now was largely replaced by a Presidential Council, which was not elected but simply appointed by the president. At the 28th Party Congress in July 1990, the powers of the CPSU were further reduced.

However, in parallel with these changes encouraged by Gorbachev, many events simultaneously took place over which Gorbachev had no control whatsoever. One nationality crisis followed after another, provoking conservative reactions at the center and undermining

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<sup>3</sup>Nikonov was retired in September 1989.

both Moscow's and Gorbachev's power. The earthquake in Armenia in December 1988 had important political ramifications, furnishing Prime Minister Ryzhkov with a degree of popularity as a result of his handling of the disaster. In July 1989, strikes among coal-miners brought about a serious political crisis. In December 1989, Lithuanian separatism did the same, and Gorbachev faced a sharp conservative reaction.

The combination of democratization, undemocratic rule, long-subdued national tensions, and a declining economy created a seemingly revolutionary situation, which became apparent by the summer of 1989. It has been against this background that the communist regime has had to make economic policy. The rules of political strife have been revolutionized by democratization and political reform. The public at large is of vital importance in the new Soviet politics, and novel interest groups have gained significance. Increasingly, public opinion not only influences political decisions but helps form the political agenda. However, the scope of this paper is limited to the political elite, essentially the Politburo.

With the alteration in the political rules, the sources for analysis have changed. The available evidence has become plentiful; minor differences in public speeches have been replaced by open acrimonious conflicts between Soviet leaders. Most differences in the leadership could be established with old Kremlinological crafts,<sup>4</sup> but today the picture is clearer and richer in nuances.

### **The Political Actors<sup>5</sup>**

The more closely we scrutinize the Soviet leadership as it existed prior to the 28th Party Congress, the more atomized it appears to have been. Every member of the Politburo seems to have pursued a more or less independent course. Starting at the most liberal end (which is called the "left" in the USSR) we find Aleksandr Yakovlev. Eduard Shevardnadze stood close to him, whereas Gorbachev chose a somewhat more centrist position, although both Yakovlev and Shevardnadze were considered loyal to him. Next came Vadim Medvedev, who managed to attract more public criticism from both right and left than any other Politburo member. His reformist inclination was clear but incomplete. The natural constituency of these leaders was the reformist, middle-aged intelligentsia.

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<sup>4</sup>I have tried to do so in A. Åslund, *Gorbachev's Struggle for Economic Reform*, Pinter, London, 1989, pp. 23-66.

<sup>5</sup>In the following discussion, we shall consider the Politburo as it was composed just before the 28th Party Congress.

The center of the Politburo was held by the three top economic politicians. After Ligachev's demotion in September 1988, Prime Minister Nikolai Ryzhkov became number two in the political leadership after Gorbachev. On his side, seemingly slightly more conservative but more consistent, we find the Gosplan Chairman Yurii Maslyukov. CC Secretary Nikolai Slyunkov seems to have been outdone by Ryzhkov and Maslyukov. Slyunkov's late speeches suggest that he did not have much influence, but he adopted a more reformist attitude than Ryzhkov.<sup>6</sup> These engineers and former enterprise directors drew their support from the central economic organs, industrial ministries, and enterprise directors—an ever more influential group. The nature of their power base may explain why the two representatives of central state power (Ryzhkov and Maslyukov) won out in this period over the party man Slyunkov, who was distant from the power-wielding industrial forces.

On the right, the towering figure until July 1990 was Yegor Ligachev. Curiously, no other Politburo member seemed to have been his protégé or firm ally. The explanation of his apparent strength was presumably that he enjoyed broad support from the regional party organizations, particularly in the RSFSR, which in turn was widely based on the heads of the state and collective farms. A precondition of their continued hold on power was that no agricultural reform was carried out to diffuse their local control over the peasants.

Meanwhile, Lev Zaikov positioned himself somewhere between Ligachev and Ryzhkov. The KGB Chairman, Vladimir Kryuchkov, was a full Politburo member but avoided comment on many economic issues, concentrating on his sphere of responsibility as did the Minister of Defense, Marshal Dmitrii Yazov, who was a candidate member of the Politburo. Vladimir Ivashko displayed a conservative profile, but as a new Ukrainian party chief, he did not reveal much of a political program before coming to Moscow as Gorbachev's deputy in the Central Committee Secretariat in the summer of 1990. The old-timer Vitalii Vorotnikov remained the greyest member of the leadership, and appeared increasingly conservative.

Gorbachev brought three reform economists to the fore in 1989 and 1990. Academician Leonid Abalkin became Deputy Prime Minister for economic reform in July 1989, and in the ensuing year he received more Soviet publicity than any other politician apart from Gorbachev and Ryzhkov. He entered the stage as Gorbachev's man, but was eventually co-opted by his formal boss, Prime Minister Ryzhkov. Academician Stanislav Shatalin became a member of the Presidential Council in March 1990, and Nikolai Petrakov, corresponding member of the Academy of Sciences, was appointed Gorbachev's personal

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<sup>6</sup>*Izvestiya TsK KPSS*, No. 4, 1990, pp. 49–51; *Pravda*, February 8 and June 15, 1990.

economic aide in January 1990. Although these two latter men were brought in as Gorbachev loyalists, they stayed more true to their reformist convictions than to him.

## **OBJECTIVE AND APPROACH**

The purpose of this Note is to illuminate differences within the Soviet leadership in the economic sphere from the 19th Party Conference of the CPSU in June-July 1988 until December 1990. We shall focus on the central political stage, where the main actors regarding the economy were Gorbachev, Ryzhkov, Ligachev, Abalkin, Maslyukov, and Slyunkov.

Further, we shall address those economic topics that seem to have aroused most conflict in the leadership. Four themes stand out in the public debate. We shall discuss them in approximately chronological order. The first issue is agricultural policy. It dominated Soviet economic debate before the Central Committee Plenum in March 1989, which was devoted to agriculture. A second dispute concerned the financial crisis, which became apparent in October 1988 when a large budget deficit was revealed.<sup>7</sup> This crisis has grown worse ever since. We choose price reform as a third theme, which is a key component of all economic debates. Finally, we shall discuss the very choice of economic system.

It is difficult to assess how much time and endeavor the leadership in reality devoted to various topics, but to judge from published sources these were the predominant issues in the inner debate.

## **ORGANIZATION OF THIS NOTE**

Section II discusses four critical dimensions of the strife over agriculture. Section III analyzes the response of Soviet leaders to the financial crisis, and Sec. IV examines their position on price reform, specifically with regard to the pricing of basic consumer goods. Section V outlines the views of key members of the elite on economic reform, and Sec. VI presents some conclusions.

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<sup>7</sup>*Izvestiya*, October 28, 1988.

## II. THE CLASH OVER AGRICULTURE

Agricultural policy has caused a long-lasting tug of war. Policy strife at the very summit of Soviet politics has had many dimensions. One has concerned land ownership, with a multiplication of controversial forms of ownership under debate: collective contracts, various kinds of cooperatives, collective leasehold, individual leasehold, family farms on infinite lease, and finally, privately owned farms. Another conflict has involved the choice in agriculture between the command economy and a market economy. A third issue has been the role of the party apparatus in agriculture. Traditionally, the regional and local party committees directed farming in practice, whereas industry has been governed by branch ministries in Moscow. Finally, a sharp dispute has persisted over the amount of resources devoted to agriculture.

The quarrel over agriculture has attracted particular attention because the main antagonists have been Mikhail Gorbachev and Yegor Ligachev. No other top-level disagreement has been equally highlighted,<sup>1</sup> and no other topic has been the object of so many high-level meetings, but not all its aspects have been noticed. Gorbachev stated his case for agricultural reform as early as February 25, 1986, in his introductory address to the 27th Party Congress.<sup>2</sup> For years after, Gorbachev spoke of a planned CC Plenum on agriculture. The repeated and long postponements underlined the intended importance of this CC Plenum. On March 14-15, 1989, it finally took place. In the discussion before and during the CC Plenum, Gorbachev and Ligachev clashed on virtually all matters of substance.<sup>3</sup>

### GORBACHEV AND LIGACHEV DISAGREE OVER OWNERSHIP AND RESOURCE ALLOCATION

In the struggle, everyone was purportedly anxious to achieve faster agricultural development. The question was how to accomplish it. There was no disagreement on the need for the development of social benefits and infrastructure for the rural population. However, at the end of the agricultural Plenum, Gorbachev stressed that for agricultural development, "the starting point . . . is a restructuring of ownership relations, *perestroika* of

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<sup>1</sup>See two useful articles: Dawn Mann and Elizabeth Teague, "Gorbachev Calls for 'A Green Revolution,'" *Report on the USSR*, March 31, 1989, pp. 1-5; and Erik Whitlock, "Soviet Agriculture after the March Plenum," *Report on the USSR*, April 28, 1989, pp. 5-7.

<sup>2</sup>*Pravda*, February 26, 1986.

<sup>3</sup>But at a press conference after the Plenum, Ligachev incredibly denied that there was any split at the top of the CPSU (*Dagens Nyheter* (Stockholm), March 17, 1989).

the production relations, the utilization of the most varied forms of ownership . . . and at the same time, a repudiation of command methods of management in the agrarian complex . . . .”<sup>4</sup> To Gorbachev, the main task was to make the peasants “real masters,” and “the needs of the state should be solved on the basis of contracts.”<sup>5</sup>

Gorbachev brought out all possible arguments for marketization (“a socialist market”) and pluralism of ownership. He praised NEP (Lenin’s New Economic Policy) and criticized the deportation of millions of peasants during Stalin’s collectivization, although he reaffirmed the “necessity of socialist transformation of the countryside.” Gorbachev rejected the “division according to artificial criteria between higher and lower forms of ownership” and called for “equal rights of different forms of socialist property.” He focused on the development of leasehold—that is, leasing land to peasant families on a long-term basis—but he also approved of joint stock companies. Before the CC Plenum, Gorbachev had campaigned for leasehold and new forms of independent cooperatives. In addition, he called for a new look at “family-individual peasant labor activity”—a cumbersome allusion to private enterprise. However, Gorbachev stopped short of calling for private farms, while endorsing the existing small private plots and advocating a land law.<sup>6</sup>

Ligachev’s attitude could hardly have been more different. He pursued an even more intense campaign than Gorbachev before the CC Plenum on agriculture, emphasizing completely different questions. Ligachev argued that the dynamism of agricultural production depended on the introduction of scientific-technical progress and material supplies to *kolkhozy* (collective farms) and *sovkhozy* (state farms).<sup>7</sup> To him, the main issue was “the strengthening of the material-technical base.”<sup>8</sup> He mentioned the concept of leasehold, but only in passing. It took a long time before the word “peasant farm” emerged from Ligachev’s mouth, and he then only meant the traditional tiny subsidiary private plots.

To Ligachev, the key problem in Soviet agriculture was the lack of resources.<sup>9</sup> A year after the plenum, at the 28th Party Congress in July 1990, he went so far as to call for a doubling of investment in agriculture.<sup>10</sup> Gorbachev, on the contrary, repeatedly stated that further investment would give no rewards without a change in the management system.<sup>11</sup> In

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<sup>4</sup>*Pravda*, March 18, 1989.

<sup>5</sup>*Ibid.*

<sup>6</sup>*Pravda*, March 18, 1989.

<sup>7</sup>*Pravda*, February 9, 1989.

<sup>8</sup>*Pravda*, March 3, 1989.

<sup>9</sup>*Pravda*, June 18, 1990.

<sup>10</sup>*Pravda*, July 11, 1990.

<sup>11</sup>*Pravda*, July 25, 1990.

this debate, Ryzhkov appears to have adopted an intermediary position, though probably he stood closer to Gorbachev. Ryzhkov accepted the need to give agriculture larger resources, but he did not know where to find them, though he was pushed ever further by Ligachev and his agricultural lobby.<sup>12</sup>

The resolution of the 1989 CC Plenum on agriculture was, curiously, published only two weeks later—after the elections of March 26 had given the reformers a boost. It overtly adhered to Gorbachev's line, stating that it was "important to create equal economic conditions" for traditional socialist forms of ownership, leasehold, peasant farms, their cooperatives, and individual plots.<sup>13</sup> A number of legal acts on leasehold were then adopted. A subsequent decree adopted by the Council of Ministers proclaimed equal economic rights of all kinds of farms.<sup>14</sup>

However, only family farms could make a difference, and by July 1, 1990, barely 30,000 family farms had been established, most of them in Georgia and Latvia, with a mere 900 in the RSFSR.<sup>15</sup> In July 1989, Gorbachev complained about the impediments against leasehold: "And most typical is the unwillingness of managers and specialists to assist in the development of new forms [of management] and give opportunities to people to develop their own initiatives. . . . Where threats are not successful, such conditions for leasehold are worked out that any candidate turns away."<sup>16</sup>

Ligachev thus won in practice what he seemed to have lost in words at the CC Plenum. After the CC Plenum in March 1989, Ligachev traveled around the country, devoting several speeches to "family" agriculture. His interpretation was that the March Plenum had established full rights for the tiny private plots that had existed all along; he thus diluted the essence of the Plenum decisions.<sup>17</sup> Later on, Ligachev made no bones about his actual position. In June 1990, he proudly said that he stood "firmly for giving public ownership priority."<sup>18</sup> Time and again, Ligachev attacked private property as such: "Private ownership to the means of production in any form leads to the division of people and the differentiation of their interests. . . . Those who advocate a free market invariably drag us backwards to private-property usurpation of the results of alien labor and its exploitation."<sup>19</sup>

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<sup>12</sup>*Pravda*, July 11, 1990.

<sup>13</sup>*Pravda*, April 1, 1989.

<sup>14</sup>*Pravda*, April 12, 1989.

<sup>15</sup>*Ekonomika i Zhizn*, No. 46, July 1990, p. 13.

<sup>16</sup>*Pravda*, July 3, 1989.

<sup>17</sup>*Pravda*, April 2 and 7, May 12, 1989.

<sup>18</sup>*Pravda*, June 14, 1990.

<sup>19</sup>*Pravda*, June 18, 1990; cf. *Pravda*, June 29, 1985

## ROLE OF THE PARTY IN AGRICULTURAL POLICY

By the summer of 1990, Ligachev thus appeared to have been a complete winner on agricultural policy. The socialist sector maintained its dominance; no real market mechanism had developed; and agriculture was awarded larger resources. A further dimension of his victory was that the party Central Committee maintained its control over agricultural policy. Whereas other CC commissions rarely met and seemed rather impotent, the CC commission on agrarian policy set the policy in its field. One reason was that the huge State Agro-Industrial Committee (*Gosagroprom*) had proven incompetent. The CC Plenum on agriculture decided to abolish *Gosagroprom*, and Gorbachev himself found it necessary to criticize its chairman, Vsevolod Murakhovsky, who was one of his closest protégés.<sup>20</sup> When the central state organ for agriculture failed to grasp its tasks, the field lay open to Ligachev and the party apparatus. (A corollary is that Ligachev's hold on the regional party organization was somewhat stronger—and Gorbachev's somewhat weaker—than has generally been presumed, although Ligachev's failure to be elected Deputy Secretary General in July 1990 indicated that this loyalty to him was less than complete.)

Gorbachev had bemoaned party intervention at the lowest level in agriculture.<sup>21</sup> Ryzhkov lamented that it was excessive that two Politburo members (Ligachev and the like-minded Viktor Nikonov) were occupied with agriculture.<sup>22</sup> Ligachev, on the other hand, predictably explained that the cause of the problems in agriculture was that "the influence of the party committees had weakened in the economic sphere."<sup>23</sup>

A third important reason why Ligachev succeeded in maintaining such a hold on agriculture was that he forged an alliance with the directors of *sovkhozy* and chairmen of *kolkhozy* in the Congress of People's Deputies. At its first session, a group of 417 "agrarians," comprising 19 percent of the deputies, signed a petition, primarily demanding more resources for agriculture but no reform.<sup>24</sup> These "agrarians" were essentially directors of *sovkhozy* or chairmen of *kolkhozy*. Soon they were called "the Soviet estate-owners."

Their leader was the celebrated innovative *kolkhoz* chairman V. A. Starodubtsev from Tula *oblast*, who had made a remarkable turnaround. Early in *perestroika*, Starodubtsev had surfaced as one of the most reformist agricultural managers. At the 19th Party Conference in the summer of 1988, he had praised Gorbachev and Ryzhkov for their

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<sup>20</sup>*Pravda*, March 16 and 17, April 12, 1989.

<sup>21</sup>*Pravda*, March 16, 1989.

<sup>22</sup>*Pravda*, July 21, 1989.

<sup>23</sup>*Pravda*, June 14, 1990.

<sup>24</sup>*Izvestiya*, June 1, 1989.

support.<sup>25</sup> However, Starodubtsev's experiments were half measures, limited to organizational changes and more adequate incentives. He was adamantly against family farms, and he lobbied to be given a maximum of resources. Therefore, it was natural for Starodubtsev to switch his allegiance to Ligachev in 1989. Skillfully, Ligachev vied for, and acquired, the agrarians' support, which was formalized with the formation of the "Peasants' Union" in June 1990.<sup>26</sup> A strong alliance had been forged in both the CPSU and in the Congress of People's Deputies against agricultural reform and for vast additional resources to agriculture, and Ligachev was the self-evident leader of this lobby. It mattered little that Ryzhkov pointed out that the results in agriculture had been better in 1984–1986 than they were in 1987–1989—that is, when Ligachev was in charge of agriculture.<sup>27</sup>

Meanwhile, while pushing for the interests of agriculture, Ligachev mounted a virtual campaign against machine-building and the military-industrial complex, urging transfers of resources from these sectors to agriculture. He also called for "equivalent exchange" between country and town—that is, better prices for agricultural versus industrial production.<sup>28</sup> Evidently, Ligachev antagonized the military-industrial sector, well represented in the Politburo (Ryzhkov, Maslyukov, Slyunkov, and Zaikov). The conflict between Ligachev and Gorbachev has been well understood in the West, whereas the minor feud that existed between Ligachev and Ryzhkov has largely been ignored. Nor was any love lost between Ligachev and Zaikov.<sup>29</sup>

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<sup>25</sup>*Pravda*, July 1, 1988.

<sup>26</sup>*Pravda*, June 14, 1990.

<sup>27</sup>*Pravda*, July 4, 1990.

<sup>28</sup>*Pravda*, July 21, 1989.

<sup>29</sup>*Ibid.*

### III. REACTIONS TO THE FINANCIAL CRISIS

Shortages have always been characteristic of the Soviet economy, but they have grown far worse under *perestroika*. After the introduction of the grossly inadequate economic reform in 1988, based on the Law on State Enterprises (adopted in June 1987), the Soviet economy started to flounder. The principal problem was that enterprises were given more autonomy but did not have to take responsibility for their decisions. As a result, wages ran out of control, while prices could not be raised much. Enterprises manipulated their assortment of products, frequently producing fewer but more expensive and profitable commodities. Since prices were completely arbitrary and largely remained fixed, such decentralized choices tended to work against the interests of the national economy. The general discipline in society disintegrated. The old command economy was destroyed, but no new market economy was created. On the contrary, the extraordinary lack of financial and monetary policies led to a great inflationary pressure, which first created massive shortages and later forced people, enterprises, and regions to switch to barter, a much less efficient system than a command economy.

#### SOVIET LEADERSHIP RESPONDS SLOWLY

The leadership's response was tardy, at best. The eminent economic journalist Yegor Gaidar has observed: "A characteristic feature of the beginning of 1988 was the growing discrepancy and dissonance in the assessment of the economic situation between the leadership, on the one hand, and society, on the other."<sup>1</sup> The resolution of the 19th Party Conference in the summer of 1988 paid little attention to the economy and stated phlegmatically: "The country's slide towards an economic and sociopolitical crisis has been stopped."<sup>2</sup> In fact, the opposite was happening. The leadership was deeply asleep and seems to have woken up only late in 1988, when the Minister of Finance revealed that there would be a significant deficit in the state budget for 1989. Properly defined, this deficit would amount to 100 billion rubles or about 11 percent of the gross national product.<sup>3</sup>

The stage had already been set by an extensive discussion among specialists. The most influential articles were written by Professor Nikolai Shmelev of the USA and Canada

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<sup>1</sup>*Pravda*, July 24, 1990.

<sup>2</sup>*Pravda*, July 5, 1988.

<sup>3</sup>*Izvestiya*, October 28, 1988.

Institute and published in June 1987 and April 1988.<sup>4</sup> Gorbachev sounded the alarm at the beginning of 1989: "If we talk about practical matters, then the most urgent and important task of the center is to ascertain balance on the market and to establish order in financial relations." His continuation, however, makes evident how vague official thinking still was:

Practice shows that it is possible that we will not be able to avoid rather sharp and decisive measures, which will primarily touch the budget, including expenditures on some large programs, which do not directly influence the social needs of the population. The question is so acute that we must look even at our defense expenditures. A preliminary study shows that we can cut them without lowering the level of security and defense capability of the state. This also concerns other spheres. We have to answer the question: for how long will we finance loss-making enterprises through the budget?<sup>5</sup>

Thus, the first two points Gorbachev thought of in response to the budget crisis were defense and enterprise subsidies. The prominence of defense cuts seems self-evident, since Gorbachev had announced a large military reduction in the United Nations in December 1988.<sup>6</sup> He then developed his thinking further in speeches in January and February 1989.

Gorbachev took exception to Shmelev's popular suggestion to undertake large-scale imports of consumer goods for Western credits, calling the notion irresponsible. Instead, he advocated the promotion of domestic food-processing and the production of consumer goods.<sup>7</sup> In fact, Gorbachev came out strongly in favor of the traditional Soviet policy of import substitution. Alluding to the time before he came to power in 1985, he stated:

Previously, we tried to solve the problems of balancing the market with alcohol sales, through imports, price increases on trifles, and gold, but it was not the right way. Now we have adopted the right course—the creation of a base for the production of commodities, a substantial, modern and domestic base. The reequipping of the light, food-processing and manufacturing industry, agriculture and the service sector—here the possibilities are unlimited and we shall actively seek approaches and solutions.<sup>8</sup>

On the whole, Gorbachev's economic statements at the beginning of 1989 signified a new low-water mark for his leadership ability. His ideas reflected a "gut reaction" of a traditional communist technocrat: develop the domestic industry and simply produce more! It is true that Gorbachev did, sensibly, link the normalization of the market to financial

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<sup>4</sup>Nikolai P. Shmelev, "Avansy i dolgi," *Novy mir*, Vol. 63, No. 6, June 1987, pp. 142-58; "Novye trevogi," *Novy mir*, Vol. 64, No. 4, April 1988, pp. 160-75. Another important article was Yegor Gaidar, "Kursom ozdorovleniya," *Kommunist* Vol. 65, No. 2, January 1988, pp. 41-50.

<sup>5</sup>*Pravda*, January 8, 1989.

<sup>6</sup>*Pravda*, December 8, 1988.

<sup>7</sup>*Pravda*, January 24, 1989.

<sup>8</sup>*Pravda*, February 16, 1989.

stabilization, advocating the adjustment of state expenditures to state revenues. He proposed to put investment activity into order, to reduce defense expenditure, to revise enterprise subsidies, and "mainly, comrades, it is necessary to deregulate the economic mechanism in order to assure that the growth of labor productivity exceeds the growth of wages with economic methods."<sup>9</sup> Nevertheless, he did not show realization of the depth of the crisis: "But we shall not solve the financial problems through price rises without compensation and not at the expense of workers' savings, but through the utilization of the enormous reserves which our economy has at its disposal."<sup>10</sup>

The government presented a revised budget on Gorbachev's lines in March 1989.<sup>11</sup> A number of social benefits were slightly reduced; for instance, child allowances and the length of maternity leave. But centrally allocated investments and defense expenditures were to be cut significantly, while the production of consumer goods was supposed to grow substantially. In addition, the structure of exports and imports would be altered to the benefit of consumer goods. As Yegor Gaidar has pointed out, after the elections in March 1989, it was no longer possible to pursue an austerity policy at the expense of consumers. "The technocratic period in economic policy" had been succeeded by "the economic practice of populism."<sup>12</sup> Democratization had introduced severe political restrictions on economic policy. The consumer could no longer be neglected.

Ryzhkov stated his views in a speech to the Supreme Soviet in June 1989. His program might be summarized as a substantial increase in the production of consumer goods and cuts in productive investment, defense expenditures, and administrative costs. He explicitly rejected the alternatives of cutting programs, raising retail prices, confiscating enterprise profits (which had been the previous practice), or increasing the foreign debt.<sup>13</sup> Thus, Gorbachev and Ryzhkov seem to have taken an identical stand on financial policy. The more populist tone of Ryzhkov's remarks in June 1989 must be seen as a result of the economic populism displayed at the Congress of People's Deputies that opened on May 25. A year later Academician Stanislav Shatalin stated:

I understand that even [Gorbachev and Ryzhkov], who started perestroika, are not able to, if you want, do not have the biological facilities to change their philosophy instantly, to move from the existing way of thinking to the new

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<sup>9</sup>Ibid.

<sup>10</sup>*Pravda*, February 24, 1989.

<sup>11</sup>*Izvestiya*, March 30, 1989.

<sup>12</sup>*Pravda*, July 25, 1990.

<sup>13</sup>*Pravda*, June 8, 1989.

realities. They have, as everyone, been fed for decades with the ideas of a strict plan and a technocratic approach to the solution of economic questions.<sup>14</sup>

Characteristically, leading Soviet politicians in the past had said little on financial issues. They had never really been involved in considering such issues. Consequently, the traditions of the system now prevailed.

## SOURCES OF THE BUDGET DEFICIT

A budget deficit has existed since the early 1970s, according to Igor Birman's calculations and current Soviet assessments.<sup>15</sup> However, in 1985 it started growing and was soon beyond control. According to Gaidar, the deficit in the state budget widened from 18 billion rubles in 1985 to 57.1 billion in 1987.<sup>16</sup> Why was the new political leadership so much worse than its predecessors in maintaining financial balance? The official practice was to blame the Chernobyl catastrophe in April 1986 and the earthquake in Armenia in December 1988, but their impact on the budget was in fact limited.

Gorbachev's 1985 slogan of economic acceleration and the accompanying policy of increased investment were fundamental reasons for the upturn in the budget crisis. The proclaimed attempt to speed up the investment process was unrealistic from the outset, since such a measure would have required systemic changes to be effective.

The most publicized cause of the increased deficit was the anti-alcohol campaign. That campaign was little criticized in public until Nikolai Shmelev did so with vigor in June 1987.<sup>17</sup> Ligachev, widely blamed for the campaign against alcoholism, has accepted responsibility, although he has tried to play down the flaws in the design of the campaign.<sup>18</sup> However, as can be seen from his February 1989 statement on import substitution cited above, Gorbachev defended the cuts imposed on alcohol sales until rather late in the day.<sup>19</sup> Ryzhkov, on the contrary, seems to have disapproved of the campaign from the outset, and in December 1989 he singled it out as the outstanding mistake in Soviet economic policy under *perestroika*.<sup>20</sup> Gaidar notes that the party organs were fully responsible for the campaign against alcohol.<sup>21</sup> Indeed, the campaign was not only decided on by the party, but was also executed by the party apparatus, so that main responsibility rests with Ligachev.

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<sup>14</sup>*Izvestiya*, April 21, 1990.

<sup>15</sup>*Ibid.*; Igor Birman, *Secret Incomes of the Soviet State Budget*, Martinus Nijhoff, The Hague, 1981.

<sup>16</sup>*Pravda*, July 24, 1990.

<sup>17</sup>Nikolai P. Shmelev, "Avansy i dolgi," *Novy mir*, Vol. 63, No. 6, June 1987, pp. 142-58.

<sup>18</sup>*Pravda*, June 30 and July 11, 1990.

<sup>19</sup>*Pravda*, February 16, 1989.

<sup>20</sup>*Izvestiya*, December 14, 1989.

<sup>21</sup>*Pravda*, July 24, 1990.

Similarly, Ryzhkov criticized the struggle against unearned incomes—Ligachev's second pet project—as “inconsistent.”<sup>22</sup> Ligachev remained remorseless on this matter and advocated a conscious reinforcement of discipline at work and in society, on the model of what happened in 1983, when Yuri Andropov launched his disciplinary campaign.<sup>23</sup> Ligachev's conflict with Ryzhkov on this issue illustrates the fact that although Ligachev is an engineer by training, he has little but contempt for technocratic politicians. (As an example of a ridiculous promise given at an early stage of *perestroika*, he has pointed to a prediction that Soviet machine-building production would reach the world level at the end of the 1980s.<sup>24</sup> It was Zaikov who had made such a promise.<sup>25</sup> Admittedly, Gorbachev had endorsed this claim, but it was Zaikov who had harbored an unrealistic belief that better quality control would swiftly raise the Soviet technological level. Again, Ligachev was on a collision course with the protagonists of the military-industrial complex.<sup>26</sup>)

The oil price decline on the world market in 1986 was a further reason for reduced state revenues. The internal financial effects of this decline were aggravated because the government favored industry at the expense of the consumers. Imports of machinery and equipment from the West rose from 1985 to 1989 from 5.4 to 7 billion currency rubles, whereas imports of manufactured consumer goods from the West were drastically cut from 1.5 to 0.5 billion rubles.<sup>27</sup> Typically, none of the top politicians seems to have discussed this problem in public, suggesting that they all may have felt responsible. Academician Abel Aganbegyan has attacked the regime for having made this decision in 1987 without consulting economic experts.<sup>28</sup>

Gaidar offers two additional explanations for the growing budget deficit. First, he blames institutional imbalances. “The Ministry of Finance is defenseless,” he says, “in the face of the pressure from strong branch groupings, which throw out billions on poorly considered investment projects. . . .”<sup>29</sup> The regime's organizational changes are likely to have aggravated this particular problem, since the creation of large industrial complexes headed by deputy prime ministers is likely to have strengthened the branch lobbies. In more general

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<sup>22</sup>*Izvestiya*, December 14, 1989.

<sup>23</sup>*Pravda*, July 11, 1990.

<sup>24</sup>*Pravda*, July 21, 1989.

<sup>25</sup>*Pravda*, August 9, 1986.

<sup>26</sup>Åslund, *Gorbachev's Struggle for Economic Reform*, pp. 46, 54.

<sup>27</sup>*Pravda*, July 24, 1990.

<sup>28</sup>Abel Aganbegyan, “Prakticheskie dela ekonomicheskoi nauki,” *EKO [Ekonomika i organizatsiya promyshlennogo proizvodstva]*, Vol. 20, No. 9, September 1989, p. 25. Nor was the campaign against alcohol subjected to economic analysis.

<sup>29</sup>*Pravda*, July 24, 1990.

terms, we may argue that the budgetary problems grew as decisionmaking was decentralized whereas responsibility was not. As central control weakened, centrifugal forces of all kinds gained momentum and grasped more and more funds.

Second, the emergence of new personalities was undoubtedly an important factor exacerbating the deficit. These new men were forceful and confident but rather ignorant of economics. Gaidar suggests the following characteristics:

With the beginning of perestroika a new generation of leaders arrived. As a rule, they had been forceful directors of large enterprises not long ago. They were much younger and more energetic than their predecessors. They were convinced of their abilities to break negative tendencies and accelerate the economic development. I think that it would have been better if they had never studied economics. . . . they had gone through [courses in] the political economy of socialism and taken exams. And apparently . . . as sensible people they understood that what is taught as the wisdom of economic theory here has no direct connection with economic reality. . . .<sup>30</sup>

As a result, these top politicians harbored a general contempt for both economists and economics. By contrast, the former long-time Chairman of Gosplan, Nikolai Baibakov, had been deeply concerned with balances in the economy. The attributes indicated by Gaidar apply to Ryzhkov, Maslyukov, Slyunkov, and Zaikov, as well as to several other leaders of lesser importance.

Third, and most important, Gorbachev made it clear in December 1990 that he and Ryzhkov had not known at the outset that there was a budget deficit.<sup>31</sup> Private conversations with numerous senior Soviet officials suggest that only the leaders of the Ministry of Finance knew of the budget deficit in 1985, when the new administration made its unfortunate decisions that almost tripled the budget deficit from 2.3 percent of the GNP in 1985 to 6.0 percent in 1986. Thus, sheer ignorance of the most elementary facts seems to have been decisive.

Nikolai Slyunkov, before any of his colleagues, realized the calamity and advocated useful steps. His prescriptions were massive privatization of housing and radical price reform. He spelled out these demands at the CC Plenum on December 9, 1989, although his remarkably radical speech was not published until four months later.<sup>32</sup> As his power slipped away, Slyunkov displayed radical marketeering views. In substance, his criticism was directed against Ryzhkov, to whom he had previously seemed reasonably close. Soon

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<sup>30</sup>Ibid.

<sup>31</sup>*Pravda*, December 10, 1990.

<sup>32</sup>*Izvestiya TsK KPSS*, No. 4, 1990, pp. 49-51; cf. *Pravda*, February 8, 1990. Harry Gelman drew my attention to this source.

afterwards, however, on December 20, 1989, when Slyunkov was interviewed by *Pravda* about the public debate over this very topic in the Congress of People's Deputies, he failed to repeat publicly the criticism he had offered privately at the CC Plenum eleven days earlier.<sup>33</sup>

Meanwhile, from the beginning of 1988, the radical economist Nikolai Shmelev had launched a campaign in favor of massive Soviet imports of consumer goods for credits.<sup>34</sup> His idea was that the Soviet Union had such an eminent creditworthiness that it could borrow billions of dollars to balance the domestic market. As we have seen, Gorbachev was strongly against such ideas at the outset of 1989,<sup>35</sup> and similar attitudes seem to have prevailed throughout the Soviet leadership. In the summer of 1989, Ryzhkov tried to refute a populist opinion that the USSR could increase its foreign indebtedness.<sup>36</sup> Even so, a decision was made in December 1988 to increase consumer goods imports by 5 billion domestic rubles.<sup>37</sup> In the summer of 1989, Gorbachev announced that additional means had been found for consumer goods imports worth 10 billion domestic rubles.<sup>38</sup> Towards the end of 1989, the government seems to have lost control and unplanned further imports costing no less than 3 billion rubles occurred.<sup>39</sup> There is no clear sign, however, that the dispute over import policy involved differences among the Soviet leaders. They seem to have been pushed by overwhelming public opinion.

In general, economic policy became ever more governed by public opinion as expressed in the media, at public meetings, and in the Supreme Soviet. One decision after the other was made without proper financing. To judge from the politicians' behavior, it was considered political suicide to object to any social program. The most notable example was a pension reform adopted in the fall of 1989 costing 29 billion rubles a year. By July 1990, the total annual budgetary costs of all proposals for new social expenditures under serious consideration amounted to some 100 billion rubles. From the middle of 1989 on, the central government had lost most of its freedom of maneuver.<sup>40</sup>

Some defense expenditure reduction seems to have enjoyed strong and broad support in the leadership. Gorbachev and Ryzhkov advocated defense cuts without hesitation.<sup>41</sup>

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<sup>33</sup>*Pravda*, December 20, 1989.

<sup>34</sup>Shmelev, "Novye Trevogi," p. 170.

<sup>35</sup>*Pravda*, January 24 and February 16, 1989.

<sup>36</sup>*Pravda*, June 8, 1989.

<sup>37</sup>*Argumenty i fakty*, No. 15, 1989.

<sup>38</sup>*Pravda*, July 19, 1989.

<sup>39</sup>Ryzhkov, *Pravda*, May 25, 1990.

<sup>40</sup>*Pravda*, July 25, 1990.

<sup>41</sup>See, for instance, *Pravda*, January 8 and June 8, 1989.

Ligachev wanted the defense sector to focus on agricultural needs.<sup>42</sup> It was only Lev Zaikov and Oleg Baklanov, the CC secretaries for defense, who tried to justify military expenditures, notably the space projects.<sup>43</sup>

In sum, we have detected only one dissident on financial policy within the Soviet leadership, Nikolai Slyunkov, but he broke ranks fairly late. It is possible that he was supported by a reformer (Yakovlev, Shevardnadze, or Medvedev), but it is doubtful. At least until the fall of 1989, Gorbachev and Ryzhkov seem to have reflected viewpoints similar to one another. Ligachev could not be bothered by financial or monetary issues, nor was Zaikov interested. Initially, these men all neglected the calls from reformers for a stabilization policy, in the age-long communist belief that what was required was only a matter of ordering people to work more. A combination of arrogance and ignorance prevailed, aborting development of any serious financial policy before October 1988. Until then, the Soviet leaders did not realize the critical nature of the situation. On the other hand, after the elections in March 1989, they had lost so much power and authority that they had little choice but to be carried away by the wave of economic populism—or resign.

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<sup>42</sup>*Pravda*, July 21, 1989.

<sup>43</sup>*Pravda*, May 19, 1989.

#### IV. PRICE REFORM

A vital question for both the financial balance and economic reform is price reform. The most controversial issue was that of changing the retail prices of basic consumer goods. Because of market imbalances, these prices would have to rise steeply sooner or later. Reform economists have long demanded market-clearing prices. Radical liberals favored free-market prices, while others preferred various combinations of fixed prices, maximum prices, and market prices. The decree on price reform adopted in July 1987 did not specify when retail prices would be altered and was self-contradictory on virtually all principles.<sup>1</sup> Soon, a populist sentiment against any price increases took over. Regrettably, most of the leading Soviet economists were swept away by this populism. Gorbachev and Ryzhkov meanwhile made a large number of statements that revealed the evolution of their thinking. In practice, throughout this period the administration settled for minor deregulation of prices while suggesting that most prices would continue to be fixed in the future. Against this background, the main political issues in the pricing sphere became: How much were prices to be raised? How much compensation was to be given? When were prices to be raised?

#### THE GORBACHEV POSITION ON PRICING OF BASIC CONSUMER GOODS

In January 1989, Gorbachev asserted that no decision had been made on pricing, but that "when deciding questions about the formation of prices we must not allow a lowering of the standard of living of the workers."<sup>2</sup> At the end of February, he went a bit further, stating that price increases without compensation were out of the question.<sup>3</sup> At the CC Plenum on agriculture in March 1989, a decision seems to have been made. Gorbachev declared that "after discussion in society we all arrived at the conclusion that now it is not necessary to touch [retail] prices."<sup>4</sup> He promised that retail prices of basic foodstuffs would remain at the existing level "for the next two—three years."<sup>5</sup>

In October 1989, the so-called Abalkin Program was presented. It signified a complete change, envisioning a combination of three kinds of retail prices: free prices, maximum prices, and fixed state prices for basic foodstuffs.<sup>6</sup> Gorbachev was an advocate of this program from its outset.

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<sup>1</sup>*O korennoi perestroike upravleniya ekonomikoi*, Moscow, Politizdat, 1987, p. 154.

<sup>2</sup>*Pravda*, January 8, 1989.

<sup>3</sup>*Pravda*, February 24, 1989.

<sup>4</sup>*Pravda*, March 18, 1989.

<sup>5</sup>*Pravda*, March 16, 1989.

<sup>6</sup>*Ekonomicheskaya gazeta*, No. 43, 1989, p. 6.

## RYZHKOV'S VIEW

To begin with, Ryzhkov reacted approximately as Gorbachev did. In June 1989, he balked at the suggestion of raising retail prices: "Here the government has a firm position—this road is not acceptable from any point of view."<sup>7</sup> By December 1989, he suggested—as Gorbachev had previously—that the concept of retail price reform and compensation to the population should be the subject of popular discussion during 1990 with the intention of concluding price changes in 1992.<sup>8</sup>

In May 1990, however, Ryzhkov proposed a package of price changes with compensation covering two-thirds of the price increases.<sup>9</sup> State retail prices would remain fixed but at a higher level. Although his announcement caused massive hoarding, Gorbachev came out publicly in support of Ryzhkov's proposal. Since then, Ryzhkov has repeatedly talked about the discussion within the leadership in 1988 over the question of raising prices, and has stated that it was a great mistake not to undertake the price increases then.<sup>10</sup>

Slyunkov took the high ground on price reform, and before any other leader did, advocated a comprehensive reform of price formation as well as of the bank and credit system.<sup>11</sup> His clearest published statement was made at the CC Plenum on December 9, 1989. Slyunkov explicitly attacked the government program: "in the proposals of the government the introduction of new prices and financial and bank levers is postponed in an unjustified manner. . . . The longer we delay the introduction of new prices, the greater price distortions will be created and the more difficult the transition to market pricing and effective economic accounting will be."<sup>12</sup>

Most prominent politicians stayed out of this discussion, as no other topic has aroused such strong popular emotions. Gorbachev and Ryzhkov made many statements on pricing, and they were remarkably attuned to each other. Ligachev would undoubtedly have favored stable prices consistently, but said little publicly on this theme. The fact that Nikolai Slyunkov chose to stand up as an opponent of the Gorbachev-Ryzhkov line on prices may have been caused by his awareness of his imminent political demise. With little to lose, Slyunkov simply took the stand that was bound to win in the future.

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<sup>7</sup>*Pravda*, June 8, 1989.

<sup>8</sup>*Pravda*, December 14, 1989.

<sup>9</sup>*Pravda*, May 25, 1990.

<sup>10</sup>*Pravda*, July 4 and 11, 1990; *Pravitelstvennyi Vestnik*, No. 23, 1990.

<sup>11</sup>*Pravda*, June 25, 1990.

<sup>12</sup>*Izvestiya TsK KPSS*, No. 4, 1990, p. 51.

## V. ECONOMIC REFORM

Every Soviet leader seems to have had his own view of economic reform. All along, Yegor Ligachev has objected to private property and free markets, whereas Alexandr Yakovlev and Vadim Medvedev have approached these issues from what has been virtually a social democratic point of view.<sup>1</sup> These three men, together with Gorbachev, contended over ideological issues in the party leadership. Medvedev succeeded in annoying conservatives and radicals in equal measure and considered himself as standing between Ligachev and Gorbachev; nevertheless, an analysis of his economic reform statements puts him rather close to Yakovlev.<sup>2</sup>

The differences between Yakovlev and Ligachev were total. Ligachev could possibly accept a very regulated market, whereas Yakovlev wanted a full-fledged market economy. Ligachev wanted no economic entities more independent of the state than the tiny existing private agriculture plots, whereas Yakovlev advocated joint stock companies, although he stopped short of saying that he favors private ownership. At the 1990 28th Party Congress, Ligachev did not mince his words:

Once again, I want to say that I am against private property, because I am convinced that it throws us back politically and socially. I am definitely against mass unemployment and once again I want to repeat: whoever drags the country towards free market relations should be the first Soviet unemployed.<sup>3</sup>

Reactionary communist economists such as Aleksei A. Sergeev expressed similar views.<sup>4</sup>

However, Ligachev was not really at the center of the policy struggle on this question. Contention over practical decisions regarding economic reform was largely conducted among those politicians in charge of economic affairs—Ryzhkov, Maslyukov, Slyunkov, and Abalkin. We shall concentrate on the crucial issues of disagreement among these men. The most important seem to be the extent of denationalization, the future of central planning, and the speed of transition to a market economy. The two basic programs that stood opposed to one another were the Abalkin program of October 1989 and Ryzhkov's programmatic speech presented on December 13, 1989, amended on May 24, 1990.

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<sup>1</sup>*Pravda*, December 17, 1988; *Le Monde*, January 8-9, 1989; *Pravda*, December 26, 1988, April 22, 1989, and June 23, 1990.

<sup>2</sup>*Pravda*, July 21, 1989; July 11, 1990.

<sup>3</sup>*Pravda*, July 11, 1990.

<sup>4</sup>*Pravda*, July 8, 1990.

## THE ABALKIN PROGRAM

In the summer of 1989, the Soviet leadership started dealing seriously with reform once more, after a long hiatus. A new "State Commission of the USSR Council of Minister of Economic Reform" was established by decree on July 5, 1989.<sup>5</sup> It differed from previous reform commissions in several important regards. First, it was headed by a reformist and academic economist, Academician Leonid Abalkin, whereas the previous commission had been led by the Chairman of Gosplan, Yurii Maslyukov. Second, it had a much higher status than its predecessors, as a permanent organ of the Council of Ministers. Third, it possessed an independent apparatus, so that it did not have to rely upon the Gosplan staff. Fourth, it had extensive powers and was entitled to issue commands to other permanent bodies of the Council of Ministers.<sup>6</sup>

The very establishment of such a commission implied a change in the power balance with regard to economic reform. The immediate losers in this power shift were CC Secretary Nikolai Slyunkov and the CC apparatus; Yurii Maslyukov and Gosplan; and Prime Minister Nikolai Ryzhkov, who lost his own economic apparatus to the new commission. Evidently, it was Mikhail Gorbachev who had engineered this important institutional change.

Gorbachev's apparent intention was to revive attempts at radical economic reform and therefore to reinforce the influence of academic economists whose knowledge and radicalism were required. In September 1989, Gorbachev gathered leading reform economists and admonished them to rapidly work out a comprehensive reform program

As early as October 1989, the Abalkin commission presented a comprehensive program for economic reform. At the time, the program was strikingly radical. First of all, it took a clear stand in favor of a multitude of forms of ownership:

The diversity of forms of ownership is not a transitional but a normal state of a socialist economy. It opens possibilities for the liquidation of the alienation of workers from the means of production, the state, and participation in economic management. Reality and initiative from below have brought forth the issue of consistent destatization of ownership and the development of (various) forms of ownership such as leasehold and cooperatives, peasant and farmer property, joint stock companies and other economic associations.<sup>7</sup>

Every form of ownership apart from strictly individual ownership of enterprises with hired labor was allowed.

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<sup>5</sup>*Ekonomicheskaya gazeta*, No. 31, July 1989, pp. 16-17.

<sup>6</sup>I elaborated on these changes in A. Åslund, "Changes in Soviet Economic Policy-Making in 1989 and 1990," which I presented at the World Congress for Soviet and East European Studies in Harrogate, England, July 21-26, 1990.

<sup>7</sup>*Ekonomicheskaya gazeta*, No. 43, October 1989, p. 4.

Second, the Abalkin program condemned central planning and explicitly embraced the market: "We know from our own experience that the market mechanism does not have any worthy alternative as a means of coordinating the actions and interests of economic subjects. The market is also the most democratic way of regulating economic activity."<sup>8</sup>

A third distinct feature of the Abalkin program was its advocacy of a quick transition to a market economy, starting by 1991, although allowing for a transitional period of five years.

Gorbachev's commitment at the time to these radical ideas was underlined when he chaired three major meetings (October 23, November 1, and November 13-15), promoting the Abalkin program.<sup>9</sup> The last of these three meetings was addressed by Nikolai Slyunkov, who made clear that he, too, backed the program.<sup>10</sup>

### RYZHKOV'S PROGRAM

In the meantime, Ryzhkov had given a major speech on ownership to the Supreme Soviet in early October 1989. His approach was pragmatic and open-minded, without closing any doors. On the one hand, he underlined: "the success of the economic reform. . . depends on the directions of the transformation of ownership." On the other, "the transformation of property relations is not a goal in itself. It must assure a considerable increase in the efficiency of production."<sup>11</sup> At the big economic conference on November 15, Ryzhkov made his most surprising statement: "It is necessary to reduce state ownership sharply. If it comprises 85 percent today, then, according to our views . . . state property in its classical meaning should comprise approximately 30 percent in this country. . . . For everything else it is necessary to find new forms: joint stock companies, in which every person can be an owner, cooperative property, leasehold. . . ."<sup>12</sup> Both before and since, he consistently pursued a much more conservative line; this uncharacteristic statement may be regarded as a trial balloon which was then forgotten.

The government was supposed to elaborate on the Abalkin reform program at the second session of the Congress of People's Deputies in December 1989, but something rather different happened. The meeting on economic reform in mid-November chaired by Gorbachev had heard very conservative communist views, attacking private ownership as well as the market. Suddenly, a conservative communist campaign erupted under the

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<sup>8</sup>Ibid.

<sup>9</sup>Ed A. Hewett, "Perestroika - 'Plus': The Abalkin Reforms," *PlanEcon Report*, December 1, 1989, p. 11.

<sup>10</sup>*Ekonomicheskaya gazeta*, No. 47, November 1989.

<sup>11</sup>*Pravda*, October 3, 1989.

<sup>12</sup>*Pravda*, November 18, 1989.

auspices of the party organization in Leningrad. Gorbachev reacted to this conservative storm by publishing a two-page ideological article in *Pravda* that did not even mention the word market, although he avoided saying anything conservative in substance. Indeed, this Gorbachev article was remarkably void of substance generally, and was full of platitudes, as if the intention was to counter the conservatives, but to do so softly.<sup>13</sup>

On December 13, 1989, Ryzhkov made a speech on economic reform to the Congress of People's Deputies<sup>14</sup> that aroused considerable surprise. In contrast to his statement a month earlier, Ryzhkov now polemicized against the idea of "denationalization of state property on a large scale, including sales of small and medium-sized enterprise." Indirectly, he took exception to Abalkin's program: "If contrary to objective conditions, we try, for instance, to introduce market relations on a full scale as early as 1990 or 1991, it can lead to serious economic and social shocks."<sup>15</sup> In sharp contrast to the Abalkin program, Ryzhkov depicted a period of recentralization lasting from 1990 until 1992. Moreover, his language suggested (although he did not say so explicitly) that he envisioned retaining central command planning of the traditional kind until 1995.

Thus, transition to a more market-oriented economy was postponed for two years, and Ryzhkov contradicted the three salient points of the Abalkin program. Moreover, it was plain that the Ryzhkov program had essentially been prepared by Gosplan rather than the Abalkin commission.<sup>16</sup> At the Congress of People's Deputies, Ryzhkov defended his program with full support from Maslyukov and First Deputy Prime Minister Lev Voronin. Abalkin participated actively, but presented a somewhat ambiguous attitude. Gorbachev maintained an uncharacteristically low profile, and Slyunkov kept quiet. Gorbachev marked his dissatisfaction with those events by appointing Nikolai Petrakov, a leading pro-market economist, as his personal economic adviser soon afterwards.

Later on, it was revealed that before the Congress met, Slyunkov had criticized the government program openly at a CC Plenum held on December 9. In contrast to Ryzhkov, Slyunkov had stated: "It is possible to change the state of the economy through accelerated and more profound economic reform."<sup>17</sup> He declared that the government program proposed changes that move too slow, and warned:

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<sup>13</sup>*Pravda*, November 26, 1989.

<sup>14</sup>*Izvestiya*, December 14, 1989.

<sup>15</sup>*Ibid.*

<sup>16</sup>*Pravda*, June 30, 1990.

<sup>17</sup>*Izvestiya TsK KPSS*, No. 4, 1990, p. 50.

There is a real danger that a deterioration can set off even greater destabilization, growing inflation and increasing social conflicts, if we do not achieve significant qualitative changes on the consumer market in 1990.<sup>18</sup>

Two months later, Slyunkov referred to his December strictures against the government at the CC Plenum in February 1990, attacking Ryzhkov by name and asserting: "I do not share the view that it is impossible to execute radical economic measures in the current tense social and political situation."<sup>19</sup>

Thus, Slyunkov had finally come out as a convinced radical reformer. His criticism concerned all the three key issues—marketization, ownership, and speed of transition. However, he had asserted himself in vain. Ryzhkov had already taken over most of Slyunkov's economic powers in the fall of 1988. If Slyunkov's objections had any immediate consequence, it is likely to have been to seal his fate as a politician.

#### DISAGREEMENTS SLOW ECONOMIC REFORM

Against this background, there was no early result to be expected from the first important reform law passed in this period, the Law on Ownership, adopted by the Supreme Soviet on March 6, 1990.

Essentially, this law straddled the principles enunciated by Abalkin and Ryzhkov. It did not explicitly condone private ownership, although it accepted citizens' ownership of "individual and other economic activity."<sup>20</sup> Property rights were to be safeguarded by the law, but the equality of various forms of property was not announced. Academician Stanislav Shatalin, who became a member of the new Presidential Council in March, and Gorbachev's advisor Nikolai Petrakov were greatly disappointed and demanded an open acknowledgment of private ownership,<sup>21</sup> whereas Abalkin claimed that the issue was not important as long as joint stock companies were accepted. The law was to prove of little significance as long as no privatization program was adopted.

Gorbachev again attempted to revitalize the reform process after he had been elected president on March 15, 1990. In his first programmatic speech to the Presidential Council on March 27, he stated the need for "the radicalization of economic reform." Notably, he spoke of the need for a "land reform," although "state ownership will remain predominant." Gorbachev avoided talking of planning and declared that it was necessary to create "a normal full-blooded market." He did not give any time horizons, but it was obvious that he wanted

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<sup>18</sup>Ibid.

<sup>19</sup>*Pravda*, February 8, 1990.

<sup>20</sup>*Izvestiya*, March 10, 1990.

<sup>21</sup>*Delovye lyudi*, No. 1, May 1990; *Moskovie novosti*, No. 32, 1990.

the reform efforts to accelerate.<sup>22</sup> Soon, he clarified that the measures intended for 1992–1993 needed to be advanced to the present.<sup>23</sup> In reality, little happened. Gorbachev's renewed reform efforts fizzled out in the customary manner.

In parallel, a new government commission on "the acceleration of the transition to a planned market economy" was formed through a decree issued by the Council of Ministers on March 11, 1990. Both its purpose and composition made it evident that it was supposed to supersede the Abalkin commission. The new commission was chaired by Ryzhkov, with Maslyukov and Abalkin as deputies, but in the upshot, it was run by Maslyukov under the auspices of Gosplan. Its main task was to elaborate a new version of the government program to be presented by Ryzhkov to the Supreme Soviet in May.

On May 24, Ryzhkov read out this program. Its main content was a complex scheme for raising retail prices, while providing the population with compensation for two-thirds of the price increases. It charted an impossible middle way, since it indicated that prices would stay fixed, but at a higher level, after an insufficient adjustment to the market.<sup>24</sup>

Next, a seemingly important reform law was quietly adopted. On June 4, the Supreme Soviet promulgated a Law on Enterprises, which replaced the Law on State Enterprises of June 1987.<sup>25</sup> In essence, the law was completely market-oriented. None of the typical institutions of a command economy—State Planning Committee, branch ministries, etc.—were even mentioned, although partial price regulation was anticipated. To judge merely by the law, the marketeers had won. This law, remarkably, reduced the powers of the work collectives and endowed the enterprise directors with greater powers than they had ever had before. Despite these attributes, however, the neglect subsequently paid to this law, which was nominally supposed to be implemented in January 1991, rendered its prospects dubious.

Soon afterwards, moreover, Maslyukov spelled out his view of the future tasks of Gosplan, which were extensive, including coordination of the whole economy and substantial physical planning in the form of comprehensive programs.<sup>26</sup> The supporters of central planning thus continued to fight for a powerful Gosplan to the bitter end. Maslyukov cherished the concept of a "regulated market" which could imply substantial interventions from the center.

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<sup>22</sup>*Pravda*, March 28, 1990.

<sup>23</sup>*Izvestiya*, April 27, 1990; *Pravda*, April 11, 1990.

<sup>24</sup>*Pravda*, May 25, 1990.

<sup>25</sup>*Izvestiya*, June 12, 1990.

<sup>26</sup>*Pravda*, June 30, 1990.

The CPSU and Gorbachev himself thus failed to make a clear break with the command economy, although they went some distance in the direction of a market economy. The programmatic declaration on the economy issued by the 28th Party Congress stated that the party stood for "a step-by-step transition to the market," but generally indicated that this meant a "regulated market."<sup>27</sup> Eventually, private property was recognized in the Congress declaration, in the cryptic words: "in the system of forms of ownership, labour private property, which can work to improve the people's life, must have its place." The limits to privatization posed in the party declaration seemed mild: "The CPSU is against total denationalization."<sup>28</sup> Still, the party failed to put forward any operative program to show how the public sector was to be reduced.

Divisions and confusion within the Soviet leadership had continued for too long. In one statement in the spring of 1990, Abalkin clarified the necessity of a market, but insisted that all western markets had assumed a regulated character. He denied the need for truly private property.<sup>29</sup> Even that position seems to have been too much for Ryzhkov and Maslyukov. Slyunkov had been side-tracked for good, while Gorbachev did not push hard enough for radicalized economic reform. Before any transition could possibly take place, the government had to have a clear picture of what kind of a system it was moving towards, and such a vision was missing. The Abalkin program indicated the direction, but it was not enough. It was little wonder, therefore, that the government failed to present a program of transition.

While the all-union leaders were pondering over what to do, the economic crisis was aggravated to such an extent that other centers of power felt that they had to act. The first privatization program of political significance was the so-called 500-day program presented to the Supreme Soviet of the RSFSR in June 1990.<sup>30</sup> From May 1990 on, the self-evident center of action was the leadership of the RSFSR. By dithering, the all-union leadership as such lost out, and was overtaken by society and the republic governments.

#### THE STRIFE OVER THE 500-DAY PROGRAM

In the summer of 1990, Soviet politics underwent a fundamental transformation. At the center, the 28th Party Congress of the CPSU, July 2-13, marked the end of the formal hegemony of the CPSU, and principal authority was transferred to the presidency. At the

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<sup>27</sup>*Pravda*, July 15, 1990.

<sup>28</sup>*Pravda*, July 15, 1990.

<sup>29</sup>*Ekonomika i Zhizn*, No. 22, May 1990, p. 7.

<sup>30</sup>Mikhail Bocharov in *Sovetskaya Rossiya*, June 16, 1990.

same time, the institutions of the center, including the presidency, lost most real executive power, as the republics and regions came to care less and less for the opinions and commands of the central authorities.

The eventful second half of 1990 was characterized by rapid changes by President Gorbachev. In hindsight, it appears natural to divide these months into two periods—Gorbachev's time of surprising radicalism from July until September, followed by a time of growing conservatism at the center of power. At no other time had Gorbachev changed his policies so quickly.

### **Gorbachev Assumes Dominant Role**

For a number of reasons, Gorbachev by the summer of 1990 dominated Soviet politics as never before. His powers as president were substantial, whereas previously important politicians, notably Ligachev, Zaikov, and Slyunkov, had been retired. Gorbachev maneuvered rapidly and in an unpredictable manner. His closest economic aides were Stanislav Shatalin, member of the Presidential Council, and his personal economic assistant Nikolai Petrakov. On the liberal side, the new dominant force was Boris Yeltsin. The conservatives had lost their previous leader, Ligachev, and no one adequately filled his role. For instance, the Russian First Party Secretary Ivan Polozkov had little to say on economic substance. Since the most prominent conservative political leaders had vanished, Prime Minister Nikolai Ryzhkov now emerged as the most conservative leader. From July 1990 on, the two First Deputy Prime Ministers, Yurii Maslyukov and Lev Voronin, lost prominence and the dominant government figure beside Ryzhkov became Deputy Prime Minister Leonid Abalkin, who effectively surfaced as the second man in the government.

After the 28th Party Congress, Mikhail Gorbachev for a time gave the appearance of at long last being able to show true radical colors. One important event was his meeting on July 27, 1990, with virtually all the most prominent liberal Soviet economists.<sup>31</sup> Next, Gorbachev met with Boris Yeltsin, and they agreed to set up a joint working group "On the preparation of a concept of a union program for the transition to a market economy as a foundation of a Union treaty." Its instructions were issued as a presidential decree on August 2.<sup>32</sup> It was to be chaired by Stanislav Shatalin and was therefore called the Shatalin group. This body included the original authors of the Russian Republic's 500-day program (Grigori A. Yavlinsky, Mikhail M. Zadornov, and Aleksei Yu. Mikhailov) from Yeltsin's group. Shatalin and Petrakov represented the president. Abalkin and Yevgenii Yasin were

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<sup>31</sup>*Pravda*, July 28, 1990.

<sup>32</sup>*Izvestiya*, August 5, 1990.

initially supposed to represent the government, but in practice only Yasin participated in the group. In addition, several economists at the Academy of Sciences were included in the Shatalin working group.

Abalkin refused to join the Shatalin group because together with Prime Minister Ryzhkov he led the work on the competing government program, which was elaborated by the ordinary government apparatus. Thus, at this point Abalkin made a clear break with the radical reformers and sided decisively with the government. During the whole of August, two separate groups of leading Soviet economists sat working intensely at different government dachas on two alternative programs. In early September, both were ready and were presented to the Supreme Soviet.

### **Shatalin Group Proposes Radical Reform**

The Shatalin program was surprisingly substantial and radical.<sup>33</sup> It aimed at the transition to a full-fledged market economy within 500 days. Four central points were: a far-reaching delegation of power to the republics; massive privatization through sales of state property of all kinds; a strict stabilization policy with the elimination of the budget deficit from the beginning of 1991; and a gradual liberalization of all prices with the exception of 150 basic commodities.

Numerous technical objections could be raised against this program. There was little logic in the sequencing within the 500 days. For instance, the budget deficit was supposed to be eliminated before a great many prices were released. There was a fair amount of unrealistic populism, since the standard of living was not supposed to decline during the transition and minimum wages were supposed to be set at a high level. The privatization process was poorly conceived and clearly unrealistic, since people could not possibly be tempted to buy property on such a scale. Still, this was the first comprehensive program for a real change in the economic system, and it was impressive that such a substantial program could have been produced in such a short space of time.

### **The Government Proposes a Regulated Market**

The alternative government program was a further elaboration of the programs earlier announced between December 1989 and May 1990, although it was somewhat less conservative.<sup>34</sup> The differences between the two new competing programs were clearly

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<sup>33</sup>*Perekhod k Rynku: Kontseptsia i Programma*, Moscow, 1990, 239 pp.

<sup>34</sup>*Pravitelstvennaya programma formirovaniya struktury i mekhanizma reguliruemoi rynochnoi ekonomiki*, Moscow, September 1990, 96 pp.

brought out by their titles. The Shatalin program was simply called "Transition to the market," whereas the government program had a cumbersome name without radicalism: "Government program for the formation of structures and mechanism of a regulated market economy." Indeed, the government opted for a regulated market.

On all the issues discussed above, the government took a much more conservative stand. It wanted a stronger central government; it accepted some "destatization" but hardly proper privatization, and in any case envisaged this as a vague and obviously slow process. The government did not want to eliminate the budget deficit immediately, but only to reduce the deficit to 25-30 billion rubles, arguing that it would be socially irresponsible to cut more. The government was in favor of early price increases of about 35 percent (135 billion rubles), but it promised full compensation.

While technical objections could be raised against the Shatalin program, the government program was entirely confused.<sup>35</sup> The centralization desired by the government could be accomplished only under a more severe dictatorship. The program had no clear aims, and could help move the economy only a bit in the direction of a market system, leaving the economy meanwhile in an even more impossible quagmire between two systems. The market and financial imbalances were such that state finances would have to be balanced very rapidly if hyperinflation were to be avoided. The planned price increases were supposed to lead to new fixed prices. Since full compensation was to be given, the most likely outcome would be the unleashing of hyperinflation.

The RSFSR Supreme Soviet adopted the Shatalin program swiftly on September 11. This step was unwise. The RSFSR had no possibility whatsoever of carrying out the program, since it was designed for the union as a whole and its very base was control over all of the Soviet Union's money and finance. Meanwhile, Ryzhkov and Abalkin fought hard for the government program in the USSR Supreme Soviet in September 1990.<sup>36</sup>

### **Gorbachev Takes an Ambiguous Position on Economic Reform**

These events left the whole stage to President Gorbachev, who stole the show in the fall with many varied statements on economic reform. While the other main players had taken a clear stand, Gorbachev's position remained an enigma. In early September, Gorbachev sounded as if he supported the Shatalin program:

if there will be a real plan for the stabilization of the finances, monetary circulation, the ruble, then it is necessary to adopt the idea of the Shatalin

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<sup>35</sup>For the government arguments, see *Pravitel'stvennyi Vestnik*, Nos. 37 and 39, pp. 1, 3.

<sup>36</sup>*Pravda*, September 12, 1990; *Izvestiya*, September 15, 1990.

group. I look at the position of the government and see that it is not convinced about the possibility of carrying out a stabilization policy. This is the main difference. That means an administrative price rise, the preservation of the instruments for an administrative management of the economy, etc. But we want to move in the direction of altered mechanisms, a different structure and management of the economy and of power, etc. It is here we have a dispute.<sup>37</sup>

After this statement, it was widely expected that Gorbachev would sack Ryzhkov and the whole government in order to have the Shatalin program adopted. On the contrary, Gorbachev argued for a compromise between the government and Shatalin programs. Academician Abel Aganbegyan was given this task, but he came up with a "compromise" that was 99.5 percent the Shatalin program.<sup>38</sup> Instead of giving up and adopting the Shatalin program—or the Aganbegyan version—Gorbachev demanded and received extraordinary powers to come up with a new program in three weeks' time.

In mid-October, the competing programs had been merged into "Basic guidelines on economic stabilization and transition to a market economy."<sup>39</sup> These guidelines were announced by Abel Aganbegyan on behalf of the president. The format was incomplete and the guidelines were not concrete on most issues. The document itself was not an operational plan, apart from giving the president powers to make many decisions by decree. The slogans from the Shatalin program had been retained to a considerable extent, but on the four crucial issues emphasized above, the guidelines took the government stand. Even so, the guidelines were swiftly adopted by the Supreme Soviet.<sup>40</sup> At this point, Gorbachev formally discarded the Shatalin program with the words: "We have refuted a program that was like a timetable for passenger trains. . . ."<sup>41</sup>

A common judgment among Soviet economists was that the guidelines represented a step backwards, that they confused issues through vagueness and distanced the Soviet authorities from decisions at a time of rapidly escalating imbalances and social and national unrest. In fact, the guidelines do not seem to have played a role in future policy. The economic situation had changed so much that a more radical and resolute crisis management was required.

In November and December 1990, Gorbachev took a very different line, issuing one decree after another of a traditional Stalinist hue. On November 30, the president issued a decree "On the reinforcement of workers' control for the purpose of introducing order in the

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<sup>37</sup> *Pravda*, September 12, 1990.

<sup>38</sup> *Izvestiya*, September 15, 1990.

<sup>39</sup> *Pravda*, October 18, 1990.

<sup>40</sup> *Izvestiya*, October 21, 1990.

<sup>41</sup> *Pravda*, October 26, 1990.

storage of transportation of and trade with foodstuffs and consumer goods."<sup>42</sup> Its essence was that each work collective should elect a committee of workers' control within ten days. These committees would be entitled to close "temporarily" any enterprise—including cooperatives—involved in trade in consumer goods or foodstuffs. In effect, this was a return to old Stalinist practices of complete legal arbitrariness. In the same spirit, the USSR Supreme Soviet adopted a law on reinforced penalties for speculation.<sup>43</sup> The KGB was ordered to act firmly against speculation and economic crime.

The issue of private ownership continued to be highly controversial and a focal point of dispute. Among liberal economists, a debate had evolved on how to privatize. Gorbachev, on the contrary, moved in the opposite direction. In September, he stated: "Recently, there have been stormy discussions on the issue of private ownership of land. That is a fundamental issue. It seems to me that the people itself must decide it and decide it by a referendum."<sup>44</sup> At the end of November, Gorbachev harbored doubts no longer: "I, for instance, do not accept private ownership of land whatever you do with me."<sup>45</sup>

Although Gorbachev did accept private ownership in theory, he specified that it would be very limited: "When proprietors appear, even private ownership might emerge; I however imagine that it will be petty property. It will be decisive only in certain spheres, where the cooperative and state sectors do not work appropriately."<sup>46</sup>

Gorbachev did not, however, retreat in a similar way on the market, but reasserted his position: "I have always stood up and stand up for the market."<sup>47</sup> This attitude reflected a victory by the marketeers in the public discussion. Reporting on the major debate in the Supreme Soviet about Gorbachev's basic guidelines on transition to a market economy, *Izvestiya* said that "nobody came out against the market."<sup>48</sup> Nevertheless, as the economic crisis grew worse, criticism of the market concept did emerge. At a major meeting with 3000 enterprise directors in the Kremlin, December 6–7, 1990, several directors put forward views contending that it was necessary to defend and improve the command-administrative system.<sup>49</sup>

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<sup>42</sup>*Pravda*, December 1, 1990.

<sup>43</sup>*Izvestiya*, November 3, 1990.

<sup>44</sup>*Pravda*, September 18, 1990.

<sup>45</sup>*Pravda*, December 1, 1990; cf. *Pravda*, September 18, 1990.

<sup>46</sup>*Pravda*, December 2, 1990.

<sup>47</sup>*Pravda*, December 1, 1990.

<sup>48</sup>*Izvestiya*, October 20, 1990.

<sup>49</sup>*Izvestiya*, December 7, 1990.

At that meeting, Prime Minister Ryzhkov stated that the "excessive speed in the dismantling of the former system of economic management without the creation of new economic structures and mechanisms" had played "an extremely negative role."<sup>50</sup> Gorbachev defended *perestroika* and said that he could not agree with the view that the economic policy as such had been wrong, but that "there were serious mistakes."<sup>51</sup>

As time passed and the financial and market imbalances grew worse, there was less public dispute on the necessity to close the budget deficit and liberalize prices, but the debate became so confused that practical implementation receded. The budget debate became increasingly a struggle over resources, notably between the union and the republics, rather than a discussion over principles. As *Izvestiya* summed up the situation: "the union organs plan the budget [for 1991] on the assumption that the republics will pay everything; the republics plan that if not everything, the center will anyhow pay a lot."<sup>52</sup> In a way, the differences over principles faded, as it became obvious that extraordinary measures of stabilization were necessary, while it appeared all the more impossible in practice to carry out any stabilization.

The nature of the union is primarily a political issue, although of great economic significance. In November 1990, a draft union treaty was published.<sup>53</sup> It provided for stronger central and presidential powers than any union republic was prepared to accept. Even so, Gorbachev argued in a series of speeches that he would make no further concessions regarding those powers.<sup>54</sup> On this matter he again disagreed with the Shatalin program.

On the whole, it is possible that the decisive political point affecting economic policy was that Gorbachev was not prepared to accept democratization. By October 1990, his popular support had declined to 21 percent of the population in the regular opinion polls carried out by Tatyana Zaslavskaya's Center for the Study of the Public Opinion.<sup>55</sup> The experiences of Eastern Europe suggested that a change of economic system had to be preceded by a real democratization, and it was all too clear that Gorbachev would lose power in that instance. When rejecting this option, Gorbachev saw little choice but to adopt a more conservative platform, whose leading proponents he had previously defeated.

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<sup>50</sup>*Sovetskaya Rossiya*, December 7, 1990.

<sup>51</sup>*Pravda*, December 11, 1990.

<sup>52</sup>*Izvestiya*, December 2, 1990.

<sup>53</sup>*Pravda*, November 24, 1990.

<sup>54</sup>*Pravda*, December 1, 2 and 11, 1990.

<sup>55</sup>*Dagens Nyheter*, December 9, 1990.

## VI. CONCLUSIONS

Our review of the stands on four key issues by top Soviet politicians from 1988 until 1990 has given ample evidence of fundamental differences. An analysis of those differences leads to four major conclusions.

- The continuous strife within the elite led to a fractured political leadership.
- The failure of the communist leadership to act caused the public to lose faith in its ability to solve problems and, in effect, rendered it irrelevant.
- With the exception of his agricultural policy, Mikhail Gorbachev was not a leader on economic issues in this period. Instead, by the end of 1990 he was transformed from a radical reformer to a right centrist absorbed with maintaining power.
- As a result, the future seemed to have passed into the hands of the more radical forces outside the old party elite.

A picture of continuous strife arises throughout the period considered. Typically, conflicts were not resolved in spite of febrile work in the leadership. On the contrary, the political leaders lost public support because they failed to undertake decisive actions. Meanwhile, the dividing lines in the leadership varied with issues. In short, a picture of a virtually atomized political leadership emerges.

The range and multitude of disagreement were most evident at the remarkable CC Conference on July 18, 1989, from which many examples in this Note have been drawn.<sup>1</sup> This conference has sometimes been interpreted as a concerted attack by Ryzhkov, Ligachev, Zaikov, and others on Gorbachev and Medvedev.<sup>2</sup> In fact, just about everyone seems to have attacked each other. Ryzhkov criticized the agricultural bosses (Ligachev and Nikonov) as well as Gorbachev and Medvedev, while Ligachev complained about industry and the military-industrial complex with a clear reference to Zaikov.

During 1989 and 1990, the differences within the leadership hardly diminished, but they became less significant as the leaders were outflanked both on the left and the right by an increasingly vocal and angry public opinion. As radicalization proceeded, the population appears to have given up the hope that the party leadership would be capable of constructive action. Instead, the public urged appropriate actions by newly elected democratic fora. Not

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<sup>1</sup>*Pravda*, July 21, 1989.

<sup>2</sup>Alexander Rahr, "Gorbachev Faces Revolt in the Party Apparatus," *Report on the USSR*, August 11, 1989, pp. 7-10.

least because of their failure to act quickly, the communist rulers rendered themselves irrelevant. The last stages of their rule may be described as a frantic stalemate.

Until November 2, 1987, General Secretary Gorbachev did not criticize anyone in public for going too far in a liberal direction. In 1988 and 1989, he was by degrees transformed from a radical to a right centrist, and ever more of his statements were devoted to attacks against radicals, liberals, democrats, and nationalists. After having been the foremost proponent of radical change, he was gradually transformed into a mere horse trader. More and more, as he outmaneuvered his old adversaries, Gorbachev seems to have become preoccupied with maintaining power, rather than pursuing his initially radical course to its natural conclusion.

As time passed, this picture of Gorbachev emerged more distinctly. In 1990, it became all too obvious that economic reform was no longer a prime aim of his, although it had previously seemed as if he had pursued partial democratization for the very purpose of economic reform. Moreover, he seems extraordinarily uninterested in major economic issues apart from his old fiefdom, agriculture. The political circus of 1990 suggested two crucial values in the mind of Gorbachev. First, he was anxious to maintain his own position as political leader. Second, he wanted to preserve the union. For the rest, he seemed prepared to trade anything: socialist values, liberal values, democratization, economic reform, or friends and allies.

But why did Gorbachev start the entire reform process if he in the end had to make do with less than he had in 1985? The simple answer is that he wanted to reinforce Soviet superpower status by improving the Soviet economy,<sup>3</sup> but failed. When retreating, Gorbachev shifted the focus to his own powers and the maintenance of the union.

On agriculture, differences of principle persisted between Gorbachev and Ligachev on every significant issue—the role of leasehold, family farming, the market and the party apparatus in agriculture as well as the allocation of investment. Ryzhkov reacted against Ligachev's position on agriculture, but stopped short of full support for Gorbachev. In particular, Ryzhkov and Ligachev fought over resource allocation to industry and agriculture, respectively.

For a long time, Ligachev was surprisingly successful. He managed to maintain party rule over agriculture up to the 28th Party Congress, with solid support from the powerful agricultural managers. This lobby succeeded in stalling attempts at real agricultural reform, notably family farming. Agriculture received an even larger share of the dwindling state

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<sup>3</sup>Åslund, 1989, pp. 13–14.

resources, as Ligachev urged. For the time being, his program was victorious. As a result, agricultural growth declined.

Since Ligachev's departure, a power vacuum in agriculture has arisen at the center, especially as the Deputy Prime Minister responsible for agriculture, Vladilen Nikitin, was sacked by President Gorbachev soon afterwards. Subsequently, agricultural leadership was left to regional and local authorities as well as to collective and state farm leaders, without any cohesive policy or incentives. The protracted power struggle over agriculture left this vital branch in shambles. An immediate result of the combination of no leadership and minimal market incentives was that farms in most parts of the country kept more of their harvest for their own consumption than previously, causing a fall in state procurements. In the aftermath, Ligachev is gone, but his former power base of regional party officials and heads of socialist farms seems to remain intact and available for co-option by some other able conservative communist, so long as privatization of farms does not begin on a major scale.

On finance and price reform, Gorbachev and Ryzhkov seem to have taken virtually identical positions. Slyunkov opposed Ryzhkov's policies, but apparently did so only from December 1989 on, after he had lost most of his power. Slyunkov's protests may also be seen as reflecting grumbling from the party apparatus over being overruled by the government.

In fact, the leadership as a whole was overtaken by financial events. At the outset, it did not listen to economists' warnings about the deteriorating financial situation. When it finally realized there was a crisis, democratization had by then opened the floodgates of economic populism, depriving the government of freedom of maneuver. If Ligachev and the party apparatus are to blame for the failure in agriculture, Ryzhkov and the government are the main culprits on financial and price issues, but Gorbachev shared the blame, since he had advocated the same policies.

Economic reform aroused a broad spectrum of views within the Soviet leadership. A tension emerged between Ryzhkov and Maslyukov, on the one hand, and Abalkin, Gorbachev, and Slyunkov, on the other. Key points of disagreement were the roles of market and planning, the reduction of the state sector, and the speed of transition to the market. Within the regime, Prime Minister Ryzhkov for the time being prevailed, but he failed to elaborate a program that appeared viable or could win the support of the partly democratized Supreme Soviet of the USSR. Gorbachev's hesitation and vagaries contributed to this shortfall. In the end, the communist elite, including Abalkin, was not prepared to accept liberal demands for a swift shift to free pricing and a speedy privatization.

By the end of 1990, Ryzhkov's former power base of industrial managers remained formidable, if somewhat transformed. Central economic organs, ministries, and the party

apparatus had lost power, but Soviet enterprise directors were more powerful than ever. A new trend in 1990 was the emergence of strong horizontal organizations of directors of state enterprises. As larger central state organizations grow weaker, the power of state enterprises remains, as long as they are not seriously undermined by workers' movements.

This Note has discussed the military only in passing. However, it is all too evident that the army as well as the KGB remain intact. As central economic control is dwindling, we are likely to see the reinforcement of the political powers of these professional constituencies, as long as democratization and democratic organizations have not gained sufficient force to subdue them.

In short, by the end of 1990 President Gorbachev had not taken the lead on economic issues. Only with regard to agricultural policy had he acted as a convinced reformer. On other economic matters, Gorbachev had stood fairly close to Ryzhkov in public, abandoning radical reformers. Worse, he seems to have paid little attention to the economy in a time of severe economic crisis. Thus it was no longer possible to blame the absence of progress towards reform on long-surviving conservatives such as Yegor Ligachev. In the emerging political climate, even the most radical of the old party elite appeared too tainted by communist ideas. The differences revealed within the party leadership did not prove significant enough to lend credibility to any of the leaders discussed in this Note. The future therefore seemed to belong to more radical forces outside the old elite.

At the close of the period discussed, Gorbachev remained on top, abandoned by his erstwhile constituency of liberal-minded middle-aged intelligentsia and protégés. Increasingly, Gorbachev seemed to have been transformed from a political strategist prepared to fight for a program to a political tactician fighting for his own survival. He had produced so many political turns that it was difficult to take any of his ideological concerns seriously.

The communist establishment remained in place to a surprising extent, except in certain separatist republics. However, its nature had changed. Power had filtered down to the level of republic executives; grassroot forces were still poorly organized, although democratic values and marketization continued to win majorities in opinion polls.

Rather than an ideological establishment, one could see a corporative structure of vested professional and sectoral interests emerging. While ideology seemed to mean little, the old establishment cared for the preservation of its powers and privileges. Thus, the strife seen in the communist political elite during the last few years could be interpreted in hindsight as the jockeying of various vested economic interests for post-communist power. In

this framework, the various political leaders should primarily be judged by what corporate interest they came to represent.